**Joint Hearing**
**United States Senate**
**Committee on Energy and Natural Resources**
**&**
**Committee on Commerce, Science, and Transportation**
**November 9, 2005**

**Written Testimony**
**Ross J. Pillari**
**President & CEO, BP America**

My name is Ross Pillari and I am President and CEO of BP America. BP America is the U.S. holding company for the BP Group. BP America employs 40,000 people and produces 666,000 barrels of crude oil and 2.7 billion cubic feet of natural gas per day. We operate five refineries that process nearly 1.5 million barrels a day of crude oil, and a system of pipelines and terminals throughout the United States that supply over 70 million gallons per day of gasoline and distillate fuels to customers in 35 states.

2005 has been an unusual and challenging year for our industry, both in the United States and around the world. We have experienced very tight supply /demand in global crude oil markets resulting in high crude oil prices. The tightness reflects the continued growth in demand in the Far East combined with strong global economic growth. Together with reduced supply from Iraq and Venezuela, the overall impact on crude supply in 2005 was a reduction in the historical excess crude oil capacity by nearly two thirds to less than one million barrels per day. During the year, crude oil prices ranged from $45 per barrel WTI early in the year to nearly $70 per barrel WTI in the third quarter and are now again near $60 per barrel WTI as supplies are more in balance with demand.

In the second half of the year, the refined product supply/demand picture was also affected by a series of natural disasters in the world including hurricanes Katrina and Rita here in the United States. These disruptions to refinery production and logistics infrastructure resulted in a sharp increase in finished product prices as markets with disrupted supply sources sought to attract supply from unaffected areas of the United States and the world product markets.

There has been extensive media coverage and analysis of the impacts the hurricanes have had on the communities in the Gulf Coast Region. The difficulties faced by these areas, and their recovery continues to be a concern for all of us.

Many BP employees were directly affected by the storms including the need to evacuate, and in many cases the loss of their homes and property. BP operations in the affected areas, particularly Texas and Louisiana were severely impacted. Producing platforms for both oil and gas in the Gulf of Mexico were shut down during the most severe periods of the storms, suffering damage and lost production. Underwater pipelines and onshore distribution facilities were damaged by both storms resulting in a logistical interruption to refinery supply. Refineries had to be shut down or curtailed and thousands of employees were temporarily displaced from their homes.

The impact of these extraordinary storms on our operations has not yet been fully determined but we estimate that lost production was nearly 135 thousand barrels of oil equivalent a day during the third quarter and nearly 160 thousand barrels a day of oil equivalent in the fourth quarter, and that damage to our facilities will be in the millions of dollars.  We expect most of the BP operated production facilities to be back on stream by year end.

More importantly, the severe impact of these storms made it impossible to respond as quickly as we would have liked to the immediate needs of many of our customers and communities. Displaced staff, utility outages, damaged equipment and the inability to operate terminals and refineries in many of the affected areas hampered initial recovery efforts.

In the face of these unusual external conditions, the market response was what you would expect in a global commodity market. Available product supplies were bid up as demand exceeded supply. Geographic areas not affected by the hurricanes experienced increased demand from buyers looking to move supply to the affected areas causing upward price movement in both the storm damaged and the unaffected areas. The rest of the world was also impacted. Product prices in Europe increased as domestic marketers began importing product to meet demand in the United States.

Consequently, while consumers experienced difficult and rapid increases in prices throughout the country, these same increases resulted in a market that was able to attract supply and minimize large scale supply disruption. We recognize these affects are not desirable for us or our customers, and we made every effort to increase supplies and minimize the extent of the disruptions. We regret any continuing problems and are working diligently to solve them.

In recent weeks, fuel prices have dropped down to levels similar to last spring, as the market has shown the balancing effect expected when supply moves to meet demand. The market has attracted increased supplies from unaffected areas including the global markets and the price has fallen to reflect the market driven supply/demand equilibrium. Additional supplies will reach the market as Gulf Coast refinery operations return to normal.

**In addition to the expected workings of the market, the industry responded to the crisis by adjusting its operations to meet the circumstances and restrictions created by the storms.**

**Specific actions taken by BP in response to these conditions include:**

- **Provided housing, transportation and temporary relocation for employees and their families displaced by the storms.**
- **Identified emergency service and health organizations and prioritized fuel deliveries to meet their needs.**
- **Contributed, to date, over $12 million to relief agencies in all of the affected areas (from BP, employees and branded partners).**
- **Imported over 30 million barrels of gasoline, diesel and jet fuel for delivery into markets in the Northeast, Florida and the Gulf Coast.**
- **Reversed a pipeline at our Texas City refinery dock to accept marine shipments and deliver product into the Colonial Pipeline while the refinery recovers from the storm damage.**
- **Optimized the use of available supplies of boutique fuels through waivers of fuel content requirements to help meet the needs of highly impacted areas.**
- **Arranged offshore loading from platforms to permit delivery of crude oil in the face of pipeline interruption.**

**Recovery of offshore operations was greatly aided by government response to requests for expedited permits and waivers. On the downstream side, the government's support of temporary waivers of fuel specifications allowed us to redistribute available fuels to the most distressed areas.**

While some areas continue to have tight supplies, including unfortunately, occasional runouts, the supply situation is returning to normal and as noted above, prices at the wholesale and retail level are returning to levels similar to earlier this year.

In recent months, our efforts have been focused on repairing our facilities and returning to normal operations. But, it is important to recognize that BP has continued to maintain and grow a significant base of United States production and refining assets.

In the last five years, the BP Group has averaged $13 to $15 billion each year (excluding acquisitions) in new capital investment. The largest single placement of that investment, approximately $31 billion or roughly half of our global total investment, has been here in the United States.

It is important to recognize the global nature of oil markets, means that investment outside of the United States significantly affects our nations crude and product availability by creating secure options for supply. This is particularly important in times of market disruptions as seen recently with the hurricanes. For example, BP was able to quickly bring fuels from our Rotterdam Refinery in the Netherlands to the East and Gulf Coast markets.

Our investments in the United States, of $6 billion per year, have included continued expenditures in mature operations such as $700 million per year in Alaskan North Slope fields, a 30 percent increase in lower-48 natural gas fields over the last two years to $1.5 billion this year, and over $650 million per year in refinery investments. Additional investments have also been made to maintain terminal and pipeline capability and to meet new regulations affecting distribution and marketing.

**For the future, we see continued opportunities to invest in the United States. Projects currently announced include:**

- **$2 billion for new development and infill drilling in the Wamsutter natural gas field in Wyoming. This investment is expected to double BP's net production to 250 million standard cubic feet by the end of the decade.**
- **Two proposed LNG projects, one on the East Coast and one on the Gulf Coast at a cost of $1.2 billion. These projects will allow us to access our natural gas position in Trinidad and elsewhere in the world; and if approved, potentially add 2.4 billion cubic feet send out capacity to supply markets in the United States.**
- **$2 billion planned spend, to increase the use of Canadian heavy oil and improve our upgrading capability in BP's refineries, also securing a North American source of crude oil supply.**
- **$2 billion per year sanctioned investment through the rest of the decade as a part of our continuing program to invest over $15 billion in exploration and production in the Gulf of Mexico.**
- **BP has publicly announced its intention to participate in the nearly $20 billion Alaskan Natural Gas Pipeline to bring Alaskan gas to the lower 48. We, together with other interested parties, are nearing completion of a commercial agreement with the State of Alaska.**
- **Over the past five years, we have invested more than $500 million in our solar and alternative energy business and continue to see this as a growing area of importance.**

**In closing, we believe the events of 2005 reflect unusual challenges to the global markets for oil and gas. We know we have a responsibility to help meet these challenges and we are working hard to fulfill the role we play in helping the nation recover from these extraordinary events.**

**BP has a long history of business activity and significant investments in the United States. We will continue to offer quality products, enhanced energy options and invest in support of our customers and the energy needs of the nation.**